

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2004

1. Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 (Revised) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Principal accounting policies

The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31st December, 2003.

3. Segmental information

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area are as follows:

By principal activity:

| | Six months ended 30th June, 2004 (unaudited) | | | | Consolidated HK\$'000 |
|---|--|--|---|--------------------------|--------------------------|
| | Production, acquisition and distribution of television programmes | Design, manufacture and sale of life-like plants | Sale of and the festival gift products through an internet portal | Eliminations HK\$'000 | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Sales to external customers | 17,786 | 3,680 | 391 | – | 21,857 |
| Intersegment sales | 73 | – | – | (73) | – |
| Other revenue | 540 | 27 | 4 | – | 571 |
| Total revenue | 18,399 | 3,707 | 395 | (73) | 22,428 |
| Segment results | (12,450) | (14,955) | (2,252) | – | (29,657) |
| Interest income and unallocated gains | | | | | 119 |
| Unallocated expenses | | | | | (2,061) |
| Loss from operating activities | | | | | (31,599) |
| Finance costs | | | | | (2,068) |
| Loss before taxation | | | | | (33,667) |
| Taxation | | | | | – |
| Loss before minority interests | | | | | (33,667) |
| Minority interests | | | | | – |
| Net loss for the period attributable to shareholders | | | | | (33,667) |

3. Segmental information (Continued)

| | Six months ended 30th June, 2003 | | | | | |
|--|---|--|---|---|--------------|-----------------|
| | Continuing Operations | | Discontinued Operation | | Eliminations | Consolidated |
| | Production, acquisition and distribution of television programmes | Design, and the manufacture and sale of life-like plants | Sale of festival gift products through an internet portal | Provision of anti-theft car alarm and tracking services | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Sales to external customers | 10,916 | 389 | 137 | 212 | – | 11,654 |
| Intersegment sales | – | – | – | – | – | – |
| Other revenue | 468 | 103 | – | 2 | – | 573 |
| Total revenue | 11,384 | 492 | 137 | 214 | – | 12,227 |
| Segment results | (19,366) | (2,465) | (1,378) | (25,090) | – | (48,299) |
| Interest income and unallocated gains | | | | | | 41 |
| Unallocated expenses | | | | | | (1,388) |
| Loss from operating activities | | | | | | (49,646) |
| Finance costs | | | | | | (4,508) |
| Loss before taxation | | | | | | (54,154) |
| Taxation | | | | | | – |
| Loss before minority interests | | | | | | (54,154) |
| Minority interests | | | | | | – |
| Net loss for the period attributable to shareholders | | | | | | (54,154) |

3. Segmental information (Continued)

By geographical area:

| | Six months ended 30th June, 2004 (unaudited) | | | | | | | | |
|-----------------------------|---|----------------|-----------------|----------------|--------------|----------|-----------|-----------------|--------------|
| | United States of America | | Mainland China | | | Europe | Elsewhere | Eliminations | Consolidated |
| | Hong Kong | | | | | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Sales to external customers | <u>12,189</u> | <u>1,937</u> | <u>3,680</u> | <u>4,051</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>21,857</u> | |
| Segment results | <u>(10,510)</u> | <u>(1,356)</u> | <u>(14,955)</u> | <u>(2,836)</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>(29,657)</u> | |
| | Six months ended 30th June, 2003 (unaudited) | | | | | | | | |
| | United States of America | | Mainland China | | | Europe | Elsewhere | Eliminations | Consolidated |
| | Hong Kong | | | | | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Sales to external customers | <u>3,420</u> | <u>2,535</u> | <u>601</u> | <u>4,659</u> | <u>439</u> | <u>–</u> | <u>–</u> | <u>11,654</u> | |
| Segment results | <u>(7,202)</u> | <u>(4,497)</u> | <u>(27,555)</u> | <u>(8,266)</u> | <u>(779)</u> | <u>–</u> | <u>–</u> | <u>(48,299)</u> | |

4. Other revenue

| | Six months ended 30th June, 2004 (unaudited) <i>HK\$'000</i> | Six months ended 30th June, 2003 (unaudited) <i>HK\$'000</i> |
|--------------------|---|---|
| Interest income | 119 | 41 |
| Sales of sample | 183 | 359 |
| Commission income | – | 6 |
| Exchange gain, net | 72 | 90 |
| Others | 316 | 118 |
| | <u>690</u> | <u>614</u> |

5. Loss from operating activities

Loss from operating activities is arrived at after charging:

| | Six months ended 30th June, 2004 (unaudited) <i>HK\$'000</i> | Six months ended 30th June, 2003 (unaudited) <i>HK\$'000</i> |
|--|---|---|
| Cost of inventories sold | 22,569 | 17,259 |
| Amortization/Impairment of TV programmes and sub-licensing rights | 13,046 | 414 |
| Amortization of deferred development cost | 400 | 374 |
| Depreciation | 2,162 | 3,533 |
| Impairment on property, plant and equipments | – | 21,960 |
| Loss on disposal and write-off of property, plant and equipments and other assets | 2,776 | 4,650 |
| Provision for doubtful debts | 3,786 | 98 |
| | <u>3,786</u> | <u>98</u> |

6. Finance costs

| | Six months ended 30th June, 2004 (unaudited) HK\$'000 | Six months ended 30th June, 2003 (unaudited) HK\$'000 |
|--|--|--|
| Interest on bank loans wholly repayable within five years | 159 | 528 |
| Interest on other loans | 1,889 | 3,930 |
| Interest on finance lease | 20 | 50 |
| | <u>2,068</u> | <u>4,508</u> |

7. Taxation

No provision for income tax has been made for the six months ended 30th June, 2004, as there was no assessable profit arising in Hong Kong or elsewhere. (2003: Nil)

The Group's sales of life-like plants business was used to be assessed to Profits Tax in Hong Kong on a consolidated basis, which mean profit of the subsidiaries carrying out the sales of life-like plants business were collectively assessed in the name of FT Far East Limited, a wholly-owned subsidiary of the Company. This basis has been accepted by Inland Revenue Department ("IRD") up to the year of assessment 2000/01. During the year, the IRD proposed to adopt the individual company approach commencing from the year of assessment 2001/02 and with respective effect commencing from the year 1998/99. This has the effect that the loss of one company would no longer be allowed to set off the profit of another company with the Group. Should this prevail, an additional tax of approximately HK\$500,000 may arise. The Group is now negotiating with the IRD and the outcome is uncertain, the Directors considered that no provision is to be made in regard.

The provision for deferred tax has been made in respect of accelerated depreciation allowances to the extent that a liability was expected to crystallize in the foreseeable future. The Group had an unprovided deferred tax assets of approximately HK\$2,000,000 which is mainly attributable to tax losses brought forward. No deferred tax asset has been recognized due to the unpredictability of future profit streams.

8. Dividend

The Directors have resolved not to recommend the payment of any interim dividend for the six months ended 30th June, 2004 (2003: Nil).

9. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the six months ended 30th June, 2004 of HK\$33,667,000 (2003: HK\$54,154,000) and on the weighted average of 2,591,250,000 ordinary shares (2003: 345,500,000 shares) in issue during the period.

The diluted loss per share for both of the six months ended 30th June, 2004 and 2003 has not been prepared as the exercise of the Company's outstanding option will have anti-dilutive effect on the basic loss per share.

10. Inventories

| | 30th June, 2004 (unaudited) HK\$'000 | 31st December, 2003 (audited) HK\$'000 |
|------------------|---|---|
| Raw materials | 5,528 | 3,565 |
| Work in progress | 1,562 | 1,382 |
| Finished goods | 1,915 | 1,893 |
| | <u>9,005</u> | <u>6,840</u> |

11. Television programmes and sub-licensing rights

| | 30th June, 2004 (unaudited) HK\$'000 | 31st December, 2003 (audited) HK\$'000 |
|---------------------------|---|---|
| TV programmes | 2,199 | 6,633 |
| TV programmes in progress | – | 871 |
| Sub-licensing rights | 1,646 | 7,295 |
| | <u>3,845</u> | <u>14,799</u> |

12. Trade receivables

Credit is offered to customers following a financial assessment and the demonstration of an establishing payment record. The Group usually allows an average credit period of 30 to 120 days to its customers and seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management and collections are followed up by accounting personnel. The following is aging analysis of trade receivables (net of provision for doubtful debts).

| | 30th June, 2004 (unaudited) HK\$'000 | 31st December, 2003 (audited) HK\$'000 |
|---------------|---|---|
| Aging | | |
| 0 – 90 days | 6,071 | 7,757 |
| 91 – 180 days | 83 | 4 |
| Over 180 days | 925 | 3,976 |
| | <u>7,079</u> | <u>11,737</u> |

The above aging analysis of trade receivables, stated net of provision for doubtful debts, based on the due dates after revenue is recognized from the trade transactions.

13. Fixed deposits

| | 30th June, 2004 (unaudited) HK\$'000 | 31st December, 2003 (audited) HK\$'000 |
|-----------------------|---|---|
| Fixed deposit | 25,029 | 44,000 |
| Pledged fixed deposit | 5,000 | 10,000 |
| | <u>30,029</u> | <u>54,000</u> |

14. Accounts payable and accruals

Included in accounts payable and accruals are the following trade payables:

| | 30th June, 2004 (unaudited) HK\$'000 | 31st December, 2003 (audited) HK\$'000 |
|------------------------|---|---|
| Aging | | |
| 0 – 90 days | 8,230 | 899 |
| 91 – 180 days | 571 | 3,002 |
| Over 180 days | 704 | 1,058 |
| | <hr/> | <hr/> |
| Total accounts payable | 9,505 | 4,959 |
| Accruals | 10,359 | 16,561 |
| | <hr/> | <hr/> |
| | 19,864 | 21,520 |
| | <hr/> <hr/> | <hr/> <hr/> |

The above aging analysis of trade payables based on the invoice dates after receipts of the goods and services purchased.

15. Share capital

| | 30th June, 2004 (unaudited) HK\$'000 | 31st December, 2003 (audited) HK\$'000 |
|---|---|---|
| <i>Authorised:</i> | | |
| 10,000,000,000 ordinary shares of HK\$0.01 each | 100,000 | 100,000 |
| | <hr/> | <hr/> |
| <i>Issued and fully paid:</i> | | |
| 2,591,250,000 ordinary shares of HK\$0.01 each | 25,913 | 25,913 |
| | <hr/> | <hr/> |
| | <hr/> <hr/> | <hr/> <hr/> |

An ordinary resolution has been passed at a special general meeting held on 30th June, 2004 to increase the authorized share capital of the Company to HK\$200,000,000 by the further creation of 10,000,000,000 ordinary shares of HK\$0.01 each subject to the granting of permission by the Bermuda authority.

16. Reserves

At the balance sheet date the Group had the following reserves:

| | 30th June, 2004 (unaudited) HK\$'000 | 31st December, 2003 (audited) HK\$'000 |
|---------------------|---|---|
| Share premium | 117,126 | 117,126 |
| Contributed surplus | 24,041 | 24,041 |
| Revaluation reserve | 37,435 | 37,435 |
| Accumulated losses | (105,991) | (72,324) |
| | <u>72,611</u> | <u>106,278</u> |

17. Commitments and contingent liabilities

At the balance sheet date the Group had the following commitments and contingent liabilities:

| | 30th June, 2004 (unaudited) HK\$'000 | 31st December, 2003 (audited) HK\$'000 |
|--|---|---|
| (a) Contracted capital commitment | <u>–</u> | <u>1,905</u> |
| (b) Commitment under operating lease | | |
| Annual commitments payable under non-cancellable operating leases in respect of land and buildings expiring: | | |
| Within one year | 196 | 233 |
| In the second to fifth years, inclusive | – | 276 |
| | <u>196</u> | <u>509</u> |
| (c) Contingent liabilities in respect of bills discounted with recourse | <u>–</u> | <u>156</u> |

18. Related party transactions

The Group had the following outstanding balances with a company with common directors and/or shareholders of the Company's subsidiaries at the balance sheet date:

| | 30th June, 2004 (unaudited) HK\$'000 | 30th June, 2003 (unaudited) HK\$'000 |
|-----------------------------------|---|---|
| Amount due from a related company | <u>79</u> | <u>107</u> |

19. POST BALANCE SHEET EVENTS

- a) On 25th March, 2004, the Company entered into an acquisition agreement with Solartech International Holdings Limited ("Solartech") for the acquisition of the copper business from Solartech at a consideration of HK\$320 million by the issuance of 8,000,000,000 shares of HK\$0.01 each in the share capital of the Company (the "Consideration Shares") at HK\$0.04 each.

The acquisition is a major and connected transaction for the Company and is subject to, among other things, the approval of the shareholders at the special general meeting held on 30th June, 2004 (the "SGM") and the granting of a Whitewash Waiver by the Executive Director of the Corporate Finance Division of the Securities and Future Commission. The acquisition was completed on 11th August, 2004 and 8,000,000,000 shares of HK\$ 0.01 each of the Company (representing approximately 75.5% of the enlarged share capital), was issued to Solartech and its concert parties.

- b) In order to have sufficient authorized share capital to fulfill the insurance of the Consideration Shares to Solartech as detailed in (a) above, an ordinary resolution was also passed by the shareholders at the SGM to increase the authorized share capital of the Company to HK\$200 million by the creation of an additional 10,000,000,000 shares of HK\$0.01 each. The increase in the authorized share capital of the Company was approved by the Bermuda Registrar of Companies on 15th July, 2004.
- c) On 20th August, 2004, the Directors announced that the financial year end date of the Company will be changed from 31st December, to 30th June. Accordingly a second interim report covers the period to 31st December, 2004 and the annual report covers the period from 1st January, 2004 to 30th June, 2005 will be prepared for this financial year.
- d) On 17th September, 2004, a special general meeting was held and a special resolution was passed by the shareholders to change the name of the Company to "Hua Yi Copper Holdings Limited (華藝銅業控股有限公司)" ("Hua Yi"). Subjected to the formal approval by the Bermuda authority, the Company will adopt the name of Hau Yi in future operation.

20. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current period's presentation.